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Approved For Release 2005/06/22 : CIA-RDP86T00608R000300010057-7

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BRIEF

# 155

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**Secret**

1. PORTUGAL: PRIME MINISTER AZEVEDO HAS STEPPED UP HIS CAMPAIGN TO RESTORE MILITARY DISCIPLINE, BUT HE CONTINUES TO FACE OUTRIGHT DEFIANCE FROM LEFTIST UNITS.4

GOVERNMENT EFFORTS TO TRANSFER DISRUPTIVE SOLDIERS AS A SHORT-TERM SOLUTION TO GROWING INDISCIPLINE ARE BEING HOTLY CONTESTED. RADICALS HAVE BANDED TOGETHER IN SUCH ORGANIZATIONS AS "SOLDIERS UNITED WILL WIN" AND "REVOLUTIONARY ACTION OF ARMY ENLISTED MEN," AND HAVE ALLIED THEMSELVES WITH EXTREME LEFT-WING POLITICAL PARTIES. THEY PROBABLY ARE RECEIVING VEILED SUPPORT FROM THE COMMUNISTS, WHO OFFICIALLY CONTINUE TO SUPPORT THE AZEVEDO GOVERNMENT.4

LAST WEEKEND, AN ARMY TRANSPORTATION TRAINING UNIT IN PORTO WAS DISBANDED AFTER ENLISTED MEN VOTED TO RESIST THE TRANSFER OF TWO LEFTIST OFFICERS AND SEVERAL ENLISTED MEN. SOME OF THE SOLDIERS ISSUED A STATEMENT WARNING THAT THE "STRUGGLE HAS NOT ENDED." THEY WERE IMMEDIATELY SUPPORTED BY A COALITION OF SIX FAR-LEFTIST PARTIES, WHICH CALLED FOR "MASS ACTION" TO PROTEST THE UNIT'S DISSOLUTION.4

PRO-COMMUNIST DEMONSTRATIONS IN PORTO WERE BROKEN UP BY TROOPS

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LATE SATURDAY NIGHT AND EARLY SUNDAY MORNING. OTHER DEMONSTRATIONS WERE REPORTED IN SOUTHERN PORTUGAL AND NEAR LISBON. "SOLDIERS UNITED WILL WIN" HAS CALLED FOR A DEMONSTRATION THIS EVENING IN PORTO.4

RADICALS HAVE SUCCEEDED IN PREVENTING THE TRANSFER OF MORE THAN 40 SOLDIERS, ACCUSED OF PARTICIPATING IN ANTI-GOVERNMENT DEMONSTRATIONS, FROM BEJA AIR BASE IN SOUTHERN PORTUGAL. THE GOVERNMENT SENT LOYAL PARATROOPS TO BREAK UP A DEMONSTRATION OF SEVERAL HUNDRED LEFTISTS OUTSIDE THE BASE, BUT THE TRANSFER ORDERS WERE LATER RESCINDED. THE SOLDIERS WILL ALSO BE ALLOWED TO PARTICIPATE IN NONPARTISAN POLITICAL DEMONSTRATIONS.4

IN THE LISBON AREA, LEFTIST UNITS ARE CONTINUING THEIR CAMPAIGN TO CAST DOUBT ON SOCIALIST PARTY CLAIMS THAT A LEFTIST COUP WAS PLANNED FOR LAST WEEK. THE INTERNAL SECURITY COMMAND, HEADED BY GENERAL CARVALHO, PUBLICLY DENIED SOCIALIST ALLEGATIONS THAT SOME UNITS IN THE COMMAND WERE INVOLVED IN PLOTTING AGAINST THE GOVERNMENT. ONE OF THE ACCUSED UNITS ISSUED A STATEMENT CHARGING THE SOCIALISTS WITH WANTING TO INSTALL A RIGHT-WING DICTATORSHIP.4

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IN A PRESS INTERVIEW, PRIME MINISTER AZEVEDO SIDED WITH THE SOCIALISTS AND BLAMED THE FAR LEFT FOR THE BREAKDOWN IN MILITARY DISCIPLINE WHICH PREVENTS THE GOVERNMENT FROM EXERCISING COMPLETE CONTROL OVER THE LISBON AREA. THIS ASSERTION WAS BORNE OUT BY THE REPORTED REFUSAL OF RADICAL SOLDIERS AT THE MAIN ARSENAL TO COMPLY WITH AZEVEDO'S ORDER TO SUPPLY MORE AUTOMATIC RIFLES TO A DEPENDABLE REGIMENT. THE RADICAL SOLDIERS HAVE HELPED THE FAR LEFT SMUGGLE ARMS FROM THE ARSENAL TO SYMPATHETIC CADRES.4

AZEVEDO'S DECISIVENESS IN COMBATING REBELLIOUS TROOPS MAY BE UNDERMINED BY THE RETURN ON SUNDAY OF PRESIDENT COSTA GOMES FROM OFFICIAL VISITS TO POLAND AND THE USSR. COSTA GOMES IS NOTED FOR HIS WILLINGNESS TO COMPROMISE AND HAS WEAKENED ANTI-COMMUNIST FORCES IN THE PAST BY TRYING TO AVOID A CONFRONTATION AT ALL COSTS. HE MAY SEE AZEVEDO'S ACTIONS AS DANGEROUS AND SEEK TO CURB HIS AUTHORITY.4

DURING A SPEECH ON SUNDAY MARKING THE FOUNDING OF THE FIRST PORTUGUESE REPUBLIC IN 1910, COSTA GOMES EMPHASIZED THE NEED TO HEAL DIVISIONS AMONG THE PEOPLE AND THE ARMED FORCES, BUT ALSO DEPLORED

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ACTIONS THAT "PREJUDICE THE EXERCISE OF AUTHORITY." FOLLOWING <sup>0</sup> IP FILES #  
THE CEREMONY, SOCIALIST LEADER SOARES WAS ATTACKED BY A CROWD  
OF RADICAL LEFTISTS AND HAD TO BE RESCUED BY ARMED NAVAL POLICE.

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2. PORTUGAL-USSR: PRESIDENT COSTA GOMES RETURNED TO LISBON  
ON SUNDAY FROM OFFICIAL VISITS TO POLAND AND THE USSR. MOSCOW  
TREATED THE FOUR-DAY VISIT TO THE USSR AS A MAJOR INTERNATIONAL  
EVENT, EVIDENTLY ANXIOUS TO CULTIVATE TIES WITH THE NEW LISBON  
GOVERNMENT DESPITE RECENT SETBACKS FOR THE PORTUGUESE COMMUNISTS.4

COSTA GOMES MET FOR TWO HOURS WITH GENERAL SECRETARY BREZHNEV ON  
FRIDAY AND WITH SEVERAL OTHER SOVIET LEADERS, INCLUDING PRESIDENT  
PODGORNY AND THE MINISTERS OF FOREIGN AFFAIRS, FOREIGN TRADE, AND  
DEFENSE. THE RESULTS OF THE VISIT WERE PRIMARILY POLITICAL, AS  
REFLECTED IN THE JOINT COMMUNIQUE AND IN A SEPARATE DECLARATION  
SIGNED ON OCTOBER 3 BY PODGORNY AND COSTA GOMES. THE DECLARATION  
ATTACHED "ESPECIAL IMPORTANCE" TO THE PRINCIPLES OF NATIONAL  
SELF-DETERMINATION AND NONINTERFERENCE, DIRECT OR INDIRECT, IN THE  
INTERNAL AFFAIRS OF SOVEREIGN STATES. THE TWO SIDES PLEDGED TO HOLD

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REGULAR CONSULTATIONS AT VARIOUS LEVELS TO DEVELOP BILATERAL RELATIONS ON POLITICAL, ECONOMIC, SCIENTIFIC, AND CULTURAL MATTERS. 4

BEFORE THE ARRIVAL OF THE PORTUGUESE DELEGATION, THE SOVIET PRESS EMPHASIZED ECONOMIC RELATIONS BETWEEN THE TWO COUNTRIES. A REPORTED AGREEMENT ON LONG-TERM ECONOMIC COOPERATION MAY BE THE CULMINATION OF YEAR-LONG NEGOTIATIONS FOR SOVIET ECONOMIC ASSISTANCE TO PORTUGAL, ALTHOUGH IT APPEARS UNLIKELY THAT MOSCOW PLEDGED SUBSTANTIAL AID FOR ANY SPECIFIC PROJECTS. 4

THE COMMUNIQUE PLEDGES PORTUGUESE SUPPORT FOR PROGRESS TOWARD FORCE REDUCTIONS IN CENTRAL EUROPE AND FOR A NUMBER OF PET SOVIET DISARMAMENT INITIATIVES, INCLUDING A WORLD DISARMAMENT CONFERENCE, A COMPREHENSIVE NUCLEAR WEAPONS TEST BAN, AND THE PROHIBITION OF NEW CATEGORIES OF WEAPONS OF MASS DESTRUCTION. THE DECLARATION, HOWEVER, SPECIFICALLY NOTES THAT ITS PROVISIONS "IN NO WAY AFFECT" EARLIER INTERNATIONAL OBLIGATIONS, INCLUDING PRESUMABLY PORTUGAL'S NATO COMMITMENTS. 4

BOTH DOCUMENTS STRESS THE IMPORTANCE OF THE EUROPEAN SECURITY AGREEMENT, AS DID THE RECENT PORTUGUESE-POLISH ACCORD. THE MOSCOW

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DECLARATION MARKS THE FIRST INSTANCE SINCE HELSINKI IN WHICH THE SOVIETS HAVE PLEDGED IN AN INTERNATIONAL DOCUMENT TO IMPLEMENT IN FULL MEASURE THE PROVISIONS OF THAT AGREEMENT.



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3. PORTUGAL-AZORES-MADEIRAS: INDEPENDENCE MOVEMENTS REMAIN ACTIVE IN BOTH THE AZORES AND THE MADEIRAS, BUT THE REPLACEMENT OF THE PRO-COMMUNIST GONCALVES REGIME IN LISBON HAS SAPPED MUCH OF THEIR MOMENTUM.4

THE AZORES LIBERATION FRONT IS CIRCULATING A NEW PROGRAM THAT CALLS FOR NEGOTIATIONS WITH LISBON AND A REFERENDUM ON INDEPENDENCE. SHOULD NEGOTIATIONS FAIL, HOWEVER, THE FRONT ADVOCATES A UNILATERAL DECLARATION OF INDEPENDENCE.4

THE NEW PROGRAM REPRESENTS THE VIEWS OF THE LARGEST FACTION OF THE FRONT WHICH IS DOMINATED BY THE CENTER-LEFT POPULAR DEMOCRATS. IT INCLUDES PROVISIONS FOR LAND REFORM, THE DISSOLUTION OF MONOPOLIES, FREE TRADE UNIONS, AND EQUALITY AMONG ALL OF THE ISLANDS OF THE ARCHIPELAGO.4

THE PROGRESSIVE FEATURES OF THE PROGRAM MAY IMPROVE THE IMAGE OF THE FRONT, WHICH HAS BEEN CLOSELY IDENTIFIED WITH THE AZOREAN

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UPPER CLASSES. AT THE SAME TIME, HOWEVER, IT COULD COST THE FRONT THE FINANCIAL SUPPORT OF SOME OF THE LARGE LANDOWNERS AND WEALTHY AZOREAN EMIGRES IN THE US WHO FIRST ORGANIZED THE MOVEMENT.4

INDEPENDENCE SENTIMENT IN THE MADEIRAS HAS BEEN EXAGGERATED BY THE MAINLAND PRESS, BECAUSE MOST ISLANDERS SEEM TO PREFER AUTONOMY. AT PRESENT, IT APPEARS THAT MADEIRANS WOULD MOVE FOR INDEPENDENCE ONLY IN THE CASE OF A RESURGENCE OF COMMUNIST INFLUENCE IN PORTUGAL OR THE DENIAL OF A SATISFACTORY ARRANGEMENT FOR AUTONOMY. REPORTEDLY, THERE ARE AS MANY AS FOUR INDEPENDENCE GROUPS IN THE MADEIRAS, NONE OF WHICH IS EFFECTIVELY ORGANIZED. THE MOST WIDELY KNOWN GROUP, THE FRONT FOR THE LIBERATION OF THE MADEIRAN ARCHIPELAGO, WAS FORMED EARLY LAST SUMMER BY CONSERVATIVE BUSINESSMEN AND LANDOWNERS WORRIED ABOUT THE LEFTWARD TREND OF MAINLAND POLITICS AND THE DAMAGING IMPACT OF THE SAGGING PORTUGUESE ECONOMY ON THE MADEIRAS.4

THE SEPARATIST MOVEMENT IN THE MADEIRA ISLANDS BEGAN MUCH LIKE THE AZOREAN FRONT, WHICH WAS USED AS A MODEL. IN CONTRAST TO THEIR AZOREAN COUNTERPARTS, HOWEVER, THE MADEIRAN SEPARATISTS

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HAVE BEEN UNABLE TO STIMULATE MUCH INTEREST, ESPECIALLY AMONG THE WORKING CLASS, WHICH MAKES UP ABOUT FOUR FIFTHS OF THE POPULATION.4

THE BOMBING INCIDENTS ON THE ISLANDS OVER THE PAST FEW WEEKS PROVOKED MUCH GREATER CONCERN ON THE MAINLAND THAN THEY DID AMONG MADEIRANS. LISBON'S CONCERN AND THE HEAVY COVERAGE IN THE MAINLAND PRESS, HOWEVER, HAS AIDED THE CONSTITUENT ASSEMBLY DELEGATES FROM MADEIRA IN THEIR MOVE FOR GREATER AUTONOMY.4

IF THE PORTUGUESE GOVERNMENT CONTINUES TO BE RECEPTIVE TO THE DEMAND OF THE AZOREANS AND MADEIRANS FOR GREATER AUTONOMY, THE INDEPENDENCE MOVEMENTS WILL FIND IT DIFFICULT TO FIND NEW RECRUITS. IF LISBON RETURNS TO ITS OLD POLICY OF NEGLECT, HOWEVER, OR SHOULD THE PRESENT GOVERNMENT CRUMBLE IN THE FACE OF LEFTIST OPPOSITION, THE SEPARATISTS COULD QUICKLY BECOME A SERIOUS THREAT.

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4. EUROPEAN COMMUNIST CONFERENCE: IN AN EFFORT TO REVIVE THE RAPIDLY FADING PROSPECTS FOR CONVENING A EUROPEAN COMMUNIST PARTY CONFERENCE THIS YEAR, THE SOVIETS AND EAST GERMANS

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HAVE CALLED A MEETING OF THE CONFERENCE DRAFTING GROUP ON OCTOBER 8, ACCORDING TO AN EAST GERMAN SOURCE. THIS GROUP, WHICH FIRST MET IN EAST BERLIN ON FEBRUARY 17-19 AND THEN ON APRIL 8-10, IS CHARGED WITH DRAWING UP THE CONFERENCE'S FINAL DOCUMENT. THROUGHOUT ITS PROCEEDINGS, HOWEVER, THE GROUP HAS BEEN PARALYZED BY SHARP DIFFERENCES BETWEEN THE "CENTRALISTS" LED BY MOSCOW AND THE "INDEPENDENTS," INCLUDING THE YUGOSLAVS, ROMANIANS, SPANIARDS, AND ITALIANS. IN AN ATTEMPT TO GET AROUND THIS PROBLEM, A SUBCOMMITTEE DIVIDED EVENLY BETWEEN THE TWO GROUPS WAS CREATED TO HAMMER OUT THE CONCLUDING DOCUMENT, BUT DURING ITS MEETINGS FROM MID-APRIL THROUGH MID-JULY NO PROGRESS WAS MADE, AND IT WAS FINALLY ADJOURNED SINE DIE.

FOR THE PAST THREE MONTHS NO DRAFTING MEETINGS OF ANY SORT HAVE BEEN HELD AS THE TWO CONTENDING FACTIONS HAVE HARDENED THEIR POSITIONS AND REVIEWED

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THEIR STRATEGY. ON THE SOVIET SIDE, STINGING DENUNCIATIONS OF MAOISM AND "OPPORTUNISTS" WILLING TO MAKE POLITICAL ALLIANCES WITH "BOURGEOIS" PARTIES RATHER THAN ADOPT A REVOLUTIONARY PATH TO POWER APPEARED IN AUGUST IN KOMMUNIST AND PRAVDA, RESPECTIVELY. THE YUGOSLAVS AND WEST EUROPEANS HAVE RESPONDED WITH SHARP COUNTERATTACKS IN THEIR OWN MEDIA. THE SOVIETS AND EAST GERMANS, RECOGNIZING THE DEPTH OF THE DIFFERENCES BETWEEN THE TWO SIDES, CONCEDE PRIVATELY THAT NO CONFERENCE IS LIKELY THIS YEAR AND SOME REPORTS SAY THEY ARE RECONCILED TO PUTTING IT OFF UNTIL AFTER THE SOVIET PARTY CONGRESS NEXT FEBRUARY.

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IF THE

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MEETING IS NOT HELD BEFORE THE CONGRESS, THE WHOLE PROJECT COULD BECOME A DEAD LETTER FOR AT LEAST TWO YEARS.

IN AN ATTEMPT TO GET A CONFERENCE ON TRACK AGAIN, THE SOVIETS HAVE GIVEN UP PUSHING FOR A

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PROGRAM OF COMMON ACTION BINDING ON ALL PARTICIPATING PARTIES AND HAVE OPTED INSTEAD FOR A STATEMENT OF PRINCIPLES WITH SOME BINDING PROVISIONS. THIS, HOWEVER, IS STILL UNSATISFACTORY TO THE ROMANIANS AND OTHER "INDEPENDENTS," AND THE SOVIETS ARE TOYING WITH A VAGUE, NON-BINDING DECLARATION TO AVOID SINKING THE CONFERENCE PROJECT. SOVIET PARTY SECRETARY KATUSHEV'S SUDDEN ARRIVAL IN BUCHAREST ON WEDNESDAY MAY BE AN EFFORT TO PUT PRESSURE ON THE ROMANIANS TO SOFTEN THEIR POSITION. Y

MOSCOW IS NO LONGER INSISTING ON REFERENCES TO ITS LEADING ROLE IN THE INTERNATIONAL COMMUNIST MOVEMENT AND MAY BE WILLING TO DELETE REFERENCES TO "MAOIST" SUPPORT OF OPPONENTS OF DETENTE IF THIS THREATENS THE HOLDING OF THE CONFERENCE. THE STICKING POINT IS THE ATTITUDE TO BE TAKEN BY THE CONFERENCE TOWARD THE SOCIAL DEMOCRATIC PARTIES IN WESTERN EUROPE. IF THE CHOICE COMES DOWN TO DESCRIBING

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THEM UNQUALIFIEDLY AS "PROGRESSIVE," AND THEREFORE SUITABLE POLITICAL ALLIES, AS THE "INDEPENDENTS" WISH, OR SCUTTLING THE CONFERENCE, MOSCOW WILL CHOOSE THE LATTER. THE DEPTH OF MOSCOW'S COMMITMENT TO ITS POSITION, SPELLED OUT IN THE ZARODOV PRAVDA ARTICLE IN AUGUST, WAS UNDERSCORED BY THE PUBLICITY GIVEN ZARODOV'S MEETING WITH BREZHNEV LAST MONTH, AND THIS DOES NOT AUGUR WELL EITHER FOR NEXT WEEK'S MEETING OF THE DRAFTING GROUP OR THE EUROPEAN COMMUNIST CONFERENCE PROJECT AS A WHOLE.

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5. EAST GERMANY: EAST GERMANY SUSPENDED DIPLOMATIC RELATIONS WITH SPAIN THURSDAY AFTERNOON. THE ACTION WAS FORESHADOWED WHEN EAST BERLIN RECALLED ITS AMBASSADOR ON SEPTEMBER 27TH "AS AN EXPRESSION OF ITS STRONG PROTEST AGAINST THE EXECUTIONS OF THE FIVE SPANISH PATRIOTS." EAST GERMANY IS THE ONLY WARSAW PACT COUNTRY THAT HAS HAD FULL DIPLOMATIC-- AS DISTINCT FROM CONSULAR--RELATIONS WITH MADRID.

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THE ACTION WAS ALMOST CERTAINLY TAKEN AT MOSCOW'S BEHEST, AND MAY HAVE BEEN ARRANGED DURING FOREIGN MINISTER GROMYKO'S BRIEF VISIT TO EAST-BERLIN EARLIER THIS WEEK. [REDACTED]

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6. CZECHOSLOVAKIA: PRAGUE NOW APPEARS TO BE HOLDING OUT THE POSSIBILITY THAT THOSE WHO WERE PURGED IN THE WAKE OF THE "PRAGUE SPRING" COULD RETURN TO THE PARTY RANKS IF THEY ARE WILLING TO RECANT AND "WORK FOR SOCIALISM."

THE REHABILITATION OF ALMOST HALF A MILLION FORMER PARTY MEMBERS HAS REPORTEDLY BEEN A CENTRAL ISSUE IN A MAJOR DISPUTE THAT HAS PITTED HARD LINERS AGAINST MODERATES IN THE TOP PARTY LEADERSHIP. THE HARD LINERS FEAR THAT ANY RELAXATION OF IDEOLOGICAL VIGILANCE COULD EVENTUALLY RESULT IN A RETURN TO THE DEVIATIONS OF THE "PRAGUE SPRING," WHILE THE MODERATES ARGUE THAT SELECTIVE REHABILITATION WOULD AID THE SLUGGISH CZECHOSLOVAK ECONOMY. PARTY LEADER HUSAK REPORTEDLY FAVORED REHABILITATING MEMBERS WITH

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TECHNICAL EXPERTISE AS EARLY AS 1970, BUT HE HAS BEEN FORCEFULLY BLOCKED BY THE HARD LINE FACTION OF PARTY SECRETARY VASIL BILAK.4

IN AN INTERVIEW LAST MONTH, HOWEVER, BILAK REMARKED THAT THE MAJORITY OF THOSE FORMER PARTY MEMBERS WHO DID NOT PASS THEIR RELIABILITY CLEARANCE CHECKS "ARE TRYING TO MAKE UP FOR PAST MISTAKES AND ERRORS BY HONEST WORK" AND THAT "MANY BELIEVE THAT WITH THE PASSAGE OF TIME THEY WILL BE READMITTED TO THE PARTY." THESE REMARKS HAVE SUBSEQUENTLY BEEN REPEATED IN THE PARTY PRESS, WHICH LABELED THE INTERVIEW "A DOCUMENT OF EXTRAORDINARY IMPORTANCE" THAT HAS "GENERATED CONSIDERABLE, AND FULLY JUSTIFIED INTEREST ALSO IN OUR COUNTRY."4

BILAK'S STATEMENT STOPS SHORT OF A FIRM COMMITMENT TO REINSTATE PURGED PARTY MEMBERS. ITS EVASIVENESS ON A TIME FACTOR SUGGESTS A COMPROMISE IN WHICH THE HARD LINERS HAVE GIVEN SOME GROUND BUT HAVE NOT

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CAPITULATED. IT WILL NEVERTHELESS RAISE THE HOPES OF THOSE INDIVIDUALS WILLING TO RECENT. THEIR EXPECTATIONS WILL PROBABLY BE FUELED BY THE PROMISE THAT "A PROGRAM WHICH ALL HONEST PEOPLE IN OUR COUNTRY COULD UNDERSTAND AND ACCEPT" WILL BE WORKED OUT FOR THE 15TH PARTY CONGRESS SCHEDULED FOR NEXT APRIL.4

BY HOLDING OUT THE CARROT, THE REGIME MAY BE TRYING TO DIVIDE THE RANKS OF THE PURGE VICTIMS, SPLITTING THE DISSIDENTS--THE SMALL MILITANT MINORITY--AWAY FROM THE MAJORITY, WHO MIGHT BE SWAYED BY THE PROSPECTS OF RECONCILIATION AFTER SEVEN YEARS OF FRUSTRATION AND ECONOMIC HARDSHIP. SINCE THE NOVEMBER PLENUM LAST YEAR, THE PARTY HAS GIVEN INCREASING ATTENTION TO ECONOMIC PERFORMANCE, AND THE FORMER PARTY MEMBERS ARE AN UNTAPPED OR, AT LEAST, UNDER-UTILIZED RESOURCE, PARTICULARLY IN THE AREA OF BADLY NEEDED MANAGERIAL TALENT.

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7. HUNGARY: IN A RECENT SPEECH TO PARLIAMENT, PREMIER LAZAR

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TOLD THE HUNGARIAN CONSUMER TO EXPECT A SLOWDOWN IN IMPROVEMENTS IN THE STANDARD OF LIVING DURING THE NEXT FIVE YEARS. HIS WARNING IS THE LATEST IN A SERIES OF STATEMENTS BY HIGH-LEVEL HUNGARIAN SPOKESMEN THAT ARE INTENDED TO SCALE BACK POPULAR EXPECTATIONS. 4

IN A PARTIAL PREVIEW OF THE FIVE YEAR PLAN, WHICH WILL BE PUBLISHED WITHIN THE NEXT SEVERAL MONTHS, LAZAR SAID THAT BUDAPEST CAN NOT AVOID FURTHER INCREASES IN CONSUMER PRICES, AND REVEALED THAT "GUARANTEED" RISES IN LIVING STANDARDS WOULD BE "SEVERAL PERCENT" LESS THAN IN PAST YEARS. HE IMPLIED THAT INCREASES IN REAL INCOME WOULD BE ESPECIALLY MODEST DURING 1976 AND 1977. A HUNGARIAN ECONOMIST TOLD THE EMBASSY THAT THE REGIME WOULD LIKE TO HOLD THIS INCREASE TO 1.5 PERCENT PER YEAR, BUT WOULD PROBABLY NOT DO SO BECAUSE OF THE DOMESTIC POLITICAL EFFECT. REAL INCOME HAS BEEN INCREASING AT AN AVERAGE ANNUAL

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LAZAR WAS FRANK ABOUT THE DIFFICULTIES THAT WESTERN INFLATION AND RECESSION AND SOVIET PRICE INCREASES ARE CAUSING FOR HUNGARY. HE CALLED FOR GREATER WORKER PRODUCTIVITY, CUTBACKS IN LUXURY IMPORTS, MORE EXPORTS, AND GREATER MODERNIZATION IN INDUSTRY. HE SAID THAT THE OVERALL GROWTH OF INVESTMENTS WOULD BE HALF THE RATE SUSTAINED DURING 1971-75, DESPITE AN INCREASE IN ENERGY-RELATED INVESTMENT OUTLAYS.4

ON THE SENSITIVE SUBJECT OF MANAGEMENT POLICY, LAZAR SUGGESTED A COMMITMENT TO BUDAPEST'S FLEXIBLE ECONOMIC SYSTEM WHEN HE SAID "THERE IS NO NEED TO CHANGE THE BASIC PRINCIPLES." HE CITED THE INITIATIVE AND IMAGINATION OF ENTERPRISES AS A "PRECONDITION" FOR NATIONAL ECONOMIC GROWTH. AT THE SAME TIME, LAZAR ACKNOWLEDGED THAT SOME MODIFICATIONS ARE IN THE WORKS THAT WILL INCREASE THE ROLE OF THE CENTRAL BUREAUCRACY. LAZAR SAID "IT IS NOT OUR AIM

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TO OVER-REGULATE," BUT POINTED TO CURRENT ECONOMIC PRESSURES AS JUSTIFICATION FOR THE CHANGES.



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B. CZECHOSLOVAKIA: DISCUSSIONS OF BILATERAL ECONOMIC RELATIONS DOMINATED THE VISIT OF IRANIAN PREMIER HOVEYDA TO PRAGUE EARLIER THIS WEEK. THE CZECHS, ANXIOUS TO GET FURTHER COOPERATION FROM TEHRAN, ROLLED OUT THE RED CARPET, AND PRESIDENT HUSAK PRESENTED HOVEYDA WITH THE COUNTRY'S HIGHEST AWARD, THE ORDER OF THE WHITE LION, FIRST CLASS.

THE CZECHOSLOVAK MEDIA GAVE PROMINENT AND FAVORABLE PLAY TO CZECHOSLOVAK-IRANIAN RELATIONS THROUGHOUT THE VISIT. A COMMENTARY IN THE PARTY DAILY, FOR EXAMPLE, UNDERScoreD CZECHOSLOVAKIA'S ROLE IN THE REALIZATION OF IRAN'S DEVELOPMENT PLANS AND TEHRAN'S ELIMINATION OF "IMPERIALISTS" FROM KEY SECTORS OF THE ECONOMY.

ACCORDING TO THE COMMUNIQUE ON HOVEYDA'S TALKS

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WITH PREMIER STROUGAL, THE TWO SIDES AGREED THAT THE FORTHCOMING JOINT COMMISSION MEETING IN TEHRAN WOULD WORK TOWARD A LONG-TERM AGREEMENT ON ECONOMIC, SCIENTIFIC, AND TECHNICAL COOPERATION. THE PREMIERS ALSO DISCUSSED COOPERATION--INCLUDING JOINT PROJECTS IN THIRD COUNTRIES--IN "NEW INDUSTRIAL" AND AGRICULTURAL FIELDS. NO DETAILS WERE GIVEN. THE COMMUNIQUE INDICATED THAT FINANCIAL COOPERATION WAS ANOTHER TOPIC DISCUSSED. THIS SUGGESTS THAT AT LONG LAST PRAGUE MAY BE ON THE VERGE OF ENTERING THE WESTERN MONEY MARKET.4

ALTHOUGH THERE WAS NO SUGGESTION IN EITHER THE OFFICIAL COVERAGE OR IN THE COMMUNIQUE THAT THE SUBJECT OF OIL WAS BROUGHT UP, PREMIER STROUGAL WENT OUT OF HIS WAY TO SUPPORT THE 10-PERCENT INCREASE IN OIL PRICES RECENTLY DECIDED BY THE OPEC NATIONS. ACCORDING TO STROUGAL, CZECHOSLOVAKIA CONSIDERS THE INCREASE, "AS DESIRED BY IRAN, VERY REASONABLE AND LOGICAL."

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CHINA: PEKING'S NATIONAL DAY REPORTING ON THE ECONOMY POINTS TO A STRONG RECOVERY IN 1975 FROM THE SLOW GROWTH ACHIEVED LAST YEAR.4

ACCORDING TO FIGURES FOR THE FIRST EIGHT MONTHS, OVERALL INDUSTRIAL OUTPUT INCREASED 17.3 PERCENT COMPARED WITH THE SAME PERIOD LAST YEAR. CRUDE OIL PRODUCTION REPORTEDLY WENT UP 25.5 PERCENT AND ELECTRIC POWER 15.7 PERCENT. CONSIDERABLY SMALLER INCREASES WERE IMPLIED FOR OTHER INDUSTRIES, INCLUDING SUCH TROUBLED SECTORS AS COAL AND IRON AND STEEL. "GOOD HARVESTS" WERE CLAIMED FOR SUMMER CROPS AND EARLY RICE, DESPITE ACKNOWLEDGED DRY SPELLS, CONTINUOUS WET WEATHER, LOW TEMPERATURES, AND FLOODS IN VARIOUS PARTS OF THE COUNTRY.4

THESE REPORTS DO NOT, HOWEVER, GIVE A TRUE PICTURE OF ECONOMIC GROWTH. PEKING FAILED TO INDICATE THAT THE LARGE GAINS IN INDUSTRY WERE ATTAINABLE MAINLY BECAUSE THE ECONOMY WAS OPERATING WELL BELOW CAPACITY OVER MUCH OF LAST YEAR, AS A RESULT OF FACTIONAL STRIFE, LABOR UNREST, TRANSPORT TIE-UPS, AND SHORTAGES OF COAL AND OTHER

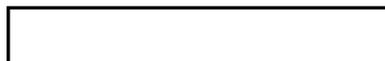
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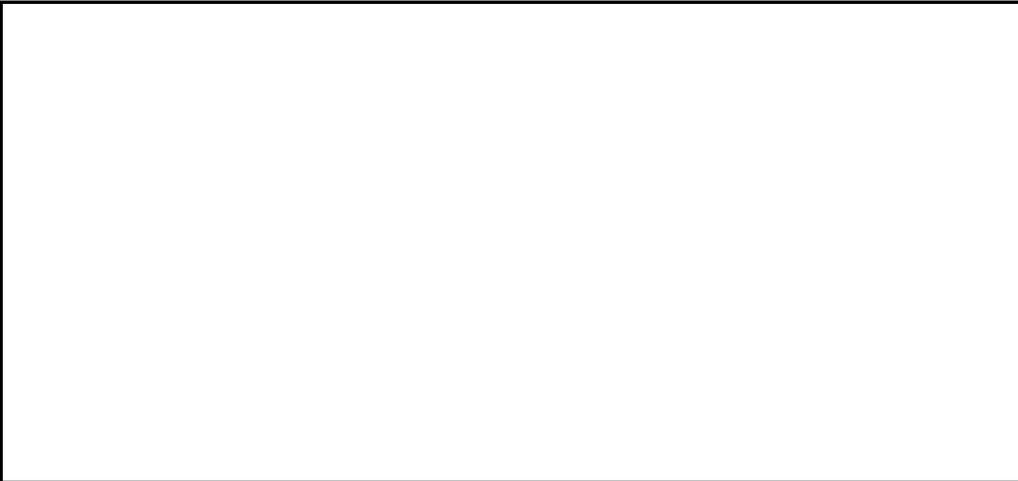
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ARGENTINA: ECONOMY MINISTER CAPIERO, WHO FOR A TIME HAD BENEFITED FROM A RELATIVE POLITICAL LULL, IS COMING UNDER INCREASING PRESSURE FROM UNION LEADERS FOR FURTHER WAGE HIKE.<sup>4</sup>

SPOKESMAN FOR THE WORKERS CLAIM THAT CONTINUING HIGH RATES OF INFLATION HAVE BEGUN TO NEGATE HUGE INCREASES WON IN LAST SUMMER'S CONFRONTATION WITH THE ADMINISTRATION. CAPIERO, WHO WAS A LONG-TIME ADVISER TO PERONIST LABOR AND THUS FAR HAS ITS SUPPORT, SEEKS TO STAVE OFF FURTHER WAGE INCREASES AS A VITAL PART OF HIS EFFORT TO RESTORE ORDER TO THE ECONOMY. ALTHOUGH CAPIERO HAS ADMITTED THAT WORKERS' PURCHASING POWER HAS DECLINED SINCE THE LAST INCREASE, HE HAS ALSO DECLARED THAT AN ADDITIONAL INCREASE IS NOT JUSTIFIED AT THIS TIME AND THAT FUTURE PAY HIKE SHOULD BE TIED TO INCREASED PRODUCTIVITY.<sup>4</sup>

IN CALLING FOR HIGHER SALARIES, LABOR LEADERS ARE RESPONDING TO WORKER RESTIVENESS OVER THE CONSTANTLY RISING COST OF LIVING. THE TOP UNIONISTS RECOGNIZE THE INFLATIONARY EFFECTS OF SUCH INCREASES, BUT THEY NONETHELESS FEEL COMPELLED TO ECHO THE WORKERS' DEMANDS

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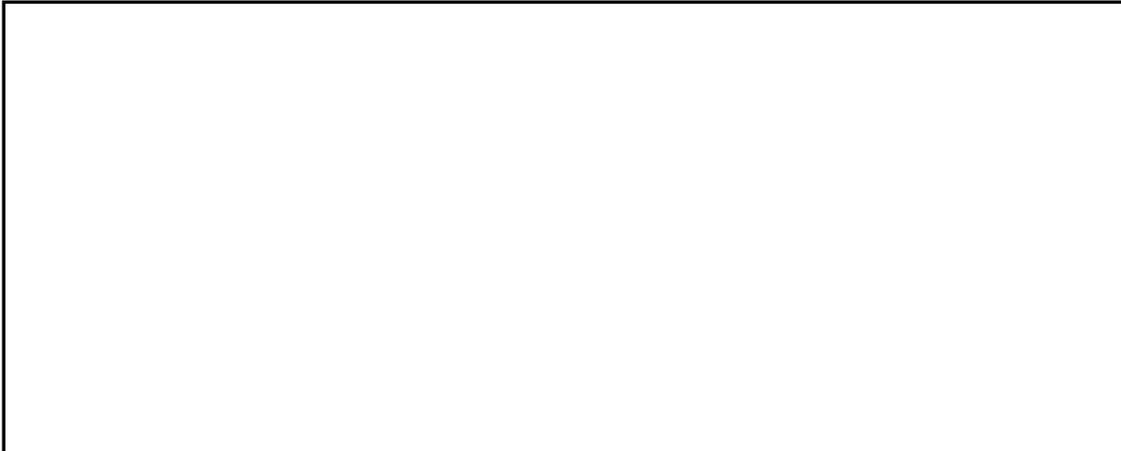
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FOR MORE MONEY, LEST THEY LOSE CONTROL OF THE LABOR MOVEMENT. THE ADMINISTRATION HAS RESPONDED BY ANNOUNCING PLANS TO FORM A NATIONAL WAGE INSTITUTE TO EVALUATE THE EFFECTS OF INFLATION AND RECOMMEND SALARY INCREASES WHEN IT DEEMS THEM NECESSARY. Y

FEARING THE LOSS OF HIS AUTHORITY, AT LEAST ONE TOP LABOR LEADER HAS SIDED WITH PRESIDENT MARIA ESTELAPPERON IN HER RECENT POLITICAL TROUBLES, IN HOPES THAT BY STRESSING HIS SUPPORT FOR PERONISM AND FOR THE HEIR OF THE DEAD LEADER, HE CAN MAINTAIN HIS PRESTIGE WITH WORKERS. SUPPORT FOR THE PRESIDENT, HOWEVER, PLACES HIM IN OPPOSITION TO ACTING PRESIDENT LUDER, WHO LIKE MANY INFLUENTIAL MILITARY MEN FAVORS PERON'S CONTINUED ABSENCE, IF NOT HER OUSTER. CAFIERO MUST REMAIN OUTSIDE THIS DISPUTE IF HE IS TO RETAIN LABOR'S BACKING AND AN EFFECTIVE ROLE ON THE LUDER TEAM. Y

MEANWHILE, THE ADMINISTRATION HAS ANNOUNCED THE CREATION OF A NATIONAL DEFENSE COUNCIL TO CENTRALIZE AUTHORITY FOR THE ANTI-TERRORIST EFFORT WITHIN THE FEDERAL GOVERNMENT, PARTICULARLY THE ARMED FORCES. THE COUNCIL, LED BY THE ACTING PRESIDENT, IS MADE UP OF THE DEFENSE MINISTER AND THE COMMANDERS OF THE ARMED SERVICES.

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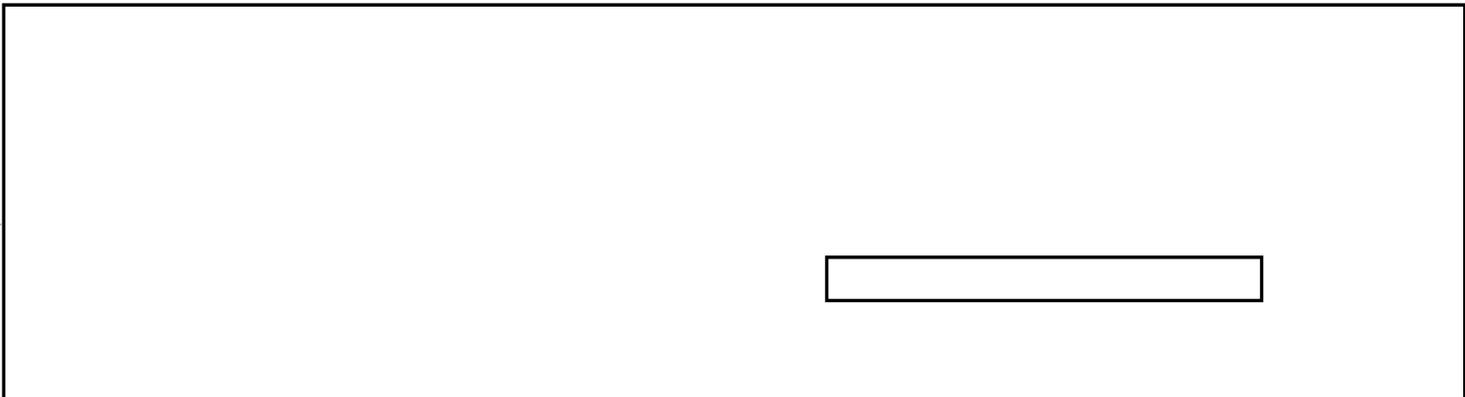
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LUDER HAS COMPLETED FOR THE TIME BEING AT LEAST THE REORGANIZATION OF THE CABINET BY NAMING SUPREME COURT JUSTICE ARAUZ CASTEX FOREIGN MINISTER. THE APPOINTMENT FREES ANGEL ROBLED0, WHO HAD BEEN HEADING THE FOREIGN MINISTRY AS WELL AS THE INTERIOR MINISTRY, TO CONCENTRATE HIS FULL ATTENTION ON THE LATTER ANDPPOLITICALLY MORE SIGNIFICANT POST.

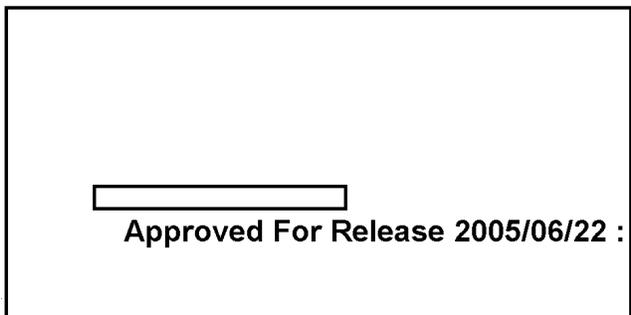


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1. EGYPT: THE EGYPTIAN STUDENT DEMONSTRATIONS HELD LAST WEEK TO PROTEST THE SECOND SINAI DISENGAGEMENT AGREEMENT APPARENTLY GREW OUT OF A WEEK-LONG "NASIRIST THOUGHT CONFERENCE" AT A CAIRO UNIVERSITY. THE CONFERENCE ATTACKED THE GOVERNMENT ON A BROAD FRONT AND CALLED FOR A RETURN OF NASIRISM.4

ALTHOUGH SPEECHES AT THE CONFERENCE AND AN OPENING COMMUNIQUE AVOIDED REFERENCE TO THE SINAI ACCORD AND REFRAINED FROM DIRECT ATTACKS ON PRESIDENT SADAT, THE THEME OF THE STUDENT-SPONSORED CONFERENCE WAS BITTER CRITICISM OF GOVERNMENT POLICIES IN GENERAL.4

IN THE FIRST ORGANIZED ATTACK ON THE GOVERNMENT IN SEVERAL MONTHS, SPEAKERS WARNED AGAINST THE ALLEGED DANGERS OF THE GOVERNMENT'S EFFORTS TO LIBERALIZE THE ECONOMY, DECRIED CORRUPTION AND THE RISE OF "NOUVEAU RICHE CAPITALISTS," AND DENOUNCED THE RIGHTWARD TURN OF EGYPT'S SOLE POLITICAL PARTY. ORGANIZERS ARRANGED FOR THREE OF NASIR'S CHILDREN TO ATTEND, AND HIS SON-IN-LAW DELIVERED A SPEECH LAMENTING EGYPT'S MOVE AWAY FROM NASIRISM.4

IN AN EFFORT TO GAIN WIDE PUBLICITY, THE ORGANIZERS INVITED

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LARGE NUMBERS OF PRESS AND RADIO REPORTERS. ALL NEWS OF THE CONFERENCE HAS BEEN SUPPRESSED, HOWEVER, EXCEPT IN LEFTIST STUDENT WEEKLIES--AN OBVIOUS GOVERNMENT EFFORT TO AVOID FUELING FURTHER PROTESTS.4

GOVERNMENT OFFICIALS ARE BECOMING INCREASINGLY CONCERNED THAT THE OPENING OF THE SCHOOL YEAR ON OCTOBER 18 WILL BRING MORE DISTURBANCES ON UNIVERSITY CAMPUSES. PRESIDENT SADAT SAID IN A SPEECH LAST WEEK THAT HE WOULD NOT TOLERATE LEFTIST STUDENT PROTESTS, AND HE UNDOUBTEDLY MEANS WHAT HE SAYS.4

SECURITY FORCES WERE MUCH IN EVIDENCE DURING THE CONFERENCE, AND THEY CAN PROBABLY HANDLE ANY DISTURBANCES. THEY QUICKLY PUT DOWN A SIZABLE LABOR DEMONSTRATION IN CAIRO ON NEW YEAR'S DAY AND SUCCEEDED, THROUGH WIDESPREAD ARRESTS OF ACTIVE AND POTENTIAL AGITATORS, IN DISCOURAGING A RECURRENCE.4

NONETHELESS, THE STUDENTS AND OPPORTUNISTIC POLITICIANS INCLINED TO MANIPULATE THEM HAVE A REAL POTENTIAL FOR CAUSE FOR ADDITIONAL DISCONTENT. ALTHOUGH MOST EGYPTIANS STILL APPEAR TO SUPPORT THE DISENGAGEMENT AGREEMENT, THERE ARE LEGITIMATE ECONOMIC GRIEVANCES

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THAT LEFTISTS WILL PROBABLY ATTEMPT TO EXPLOIT.4

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THE DISENGAGEMENT HAS GIVEN AGITATORS ANOTHER EMOTIONAL ISSUE OVER WHICH THEY MIGHT MORE EASILY STIR UP TROUBLE. BECAUSE THE DISENGAGEMENT HAS UNDERMINED THE POSITION OF LEADERSHIP IN THE ARAB WORLD THAT NASIR BUILT UP FOR EGYPT, SADAT IS MORE VULNERABLE TO CHARGES--EVEN FROM THOSE WHO DO NOT OPPOSE THE AGREEMENT--OF DESTROYING THE NASIR LEGACY.4

IN AN EFFORT TO FOMENT DISCONTENT IN EGYPT ON PRECISELY THESE GROUNDS, SOVIET AND SYRIAN PROPAGANDISTS INVOKED NASIR'S MEMORY EXTENSIVELY IN COMMENTARIES ON THE ANNIVERSARY OF HIS DEATH LAST SUNDAY. NEITHER MOSCOW NOR DAMASCUS HAD EVER PREVIOUSLY TAKEN NOTE OF THE ANNIVERSARY, AND THE SYRIANS WERE AT LOGGERHEADS WITH NASIR DURING MOST OF HIS RULE.4

APPARENTLY FEARING THE EFFECT IN EGYPT OF AN EMOTIONAL APPEAL FOR THE RETURN OF NASIRISM, SADAT DURING HIS SPEECH ON THE ANNIVERSARY DENOUNCED THOSE WHO, HAVING "SPENT THEIR LIVES COMBATING NASIR, ARE NOW TRYING TO USE HIS HERITAGE AS MERCHANDISE AND AN EXCUSE TO ATTACK EGYPT."



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THE HIGH COMMISSIONER PROFESSES TO BE OPTIMISTIC THAT THE POPULAR MOVEMENT AND THE NATIONAL UNION WILL COME TO A POLITICAL ACCOMMODATION, PERHAPS BY LATE OCTOBER. SO FAR, HOWEVER, THE PORTUGUESE HAVE NOT BEEN SUCCESSFUL IN THEIR EFFORTS TO PROMOTE SUCH AN ARRANGEMENT. THE POPULAR MOVEMENT STILL HOLDS THE ADVANTAGE, BOTH POLITICALLY AND MILITARILY, AND SHOWS NO WILLINGNESS TO MAKE CONCESSIONS TO ANYONE. ITS LEADERS EXPECT THAT ON NOVEMBER 11, LISBON WILL HAVE NO ALTERNATIVE BUT TO LEAVE THE POPULAR MOVEMENT IN CONTROL.

AT THIS STAGE, PROBABLY ONLY A MASSIVE MILITARY EFFORT BY THE NATIONAL UNION AND THE NATIONAL FRONT SUBJECTING THE POPULAR MOVEMENT TO INTENSE, SUSTAINED PRESSURE COULD MAKE THE MOVEMENT RELENT AND ACCEPT A COALITION GOVERNMENT. SO FAR, THE LEVEL OF MILITARY OPERATIONS OF BOTH GROUPS DO NOT INDICATE THAT SUCH AN EFFORT IS DEVELOPING.



3. NIGERIA: THE PROGRAM ANNOUNCED THIS WEEK BY THE NEW NIGERIAN MILITARY REGIME FOR TURNING POWER BACK TO CIVILIANS WITHIN FOUR YEARS HAS UNDOUBTEDLY UPSET IMPORTANT CIVILIAN GROUPS—STUDENTS,

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DIRECTION OF ITS PROGRAM. MUHAMMED AND OTHER KEY MEMBERS OF THE SUPREME MILITARY COUNCIL SAY PUBLICLY THAT NIGERIAN UNITY AND STABILITY ARE THE FIRST PRIORITIES. IF NIGERIA'S TRIBAL AND REGIONAL ANIMOSITIES GET OUT OF HAND, THE REGIME PROBABLY WOULD NOT HESITATE TO RENEGE ON ITS PROMISE TO RESTORE CIVILIAN RULE. 4

THE NEW MILITARY LEADERSHIP DISTRUSTS THE COUNTRY'S OLD-LINE CIVILIAN POLITICIANS, WHOSE ETHNIC POLITICS LED TO TWO MILITARY COUPS IN 1966 AND A CIVIL WAR A YEAR LATER. THE POLITICIANS ARE STILL AROUND AND IT'S UNCLEAR HOW THE MILITARY LEADERS INTEND TO HANDLE THEM AS THEY MOVE TOWARD CIVILIAN RULE. NONE OF THE CIVILIANS HAS POLITICAL SUPPORT THAT TRANSCENDS EITHER AN ETHNIC OR SECTIONAL BASE, AND NONE OF THE YOUNGER, MORE NATIONALISTIC POLITICIANS HAS ENOUGH SUPPORT YET TO BE A FACTOR. [REDACTED]

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